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NSC FOR ABRAMS/SINGH/YERGER/DEMOPULOS

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SUBJECT: LEBANON: STOCKS SOAR ON NEWS OF POLITICAL SOLUTION

SUMMARY

¶1. (SBU) Prices of Lebanese stocks soared on the Beirut Stock Exchange (BSE) on May 21 and 22 after Lebanese political leaders reached an agreement in Doha. Real estate consortium Solidere and some bank shares reached the exchange-mandated percentage limits on how much share prices may increase. The market saw some profit taking on May 22. Total value of transactions rose significantly, and the BSE recorded a new record in number of transactions on May 22. BSE president said international foreign funds, mostly western, are also investing in Lebanese instruments, and he expects "the momentum to remain positive, with some profit taking" End summary.

¶2. (SBU) The end of the political conflict and of the 18-month sit-in in downtown Beirut saw prices of Lebanese stocks soar on the Beirut Stock Exchange (BSE) on May 21 and 22. Total value of trading increased from \$16.4 million on May 21 to \$59.2 million on May 22. A total of \$50 million in Solidere shares alone accounted for 84.4 percent of total value traded. Solidere's principal real estate development of shops and offices in Beirut has suffered because of its proximity to the sit-in. The BSE also hit a new record in number of transactions, BSE President Fady Khalaf told us, noting that 1,400 transactions were recorded on May 22, of which 1,060 were in Solidere shares. The previous record was in January, 2006, with approximately 1,000 transactions recorded, he said. Market capitalization rose from \$13.89 million on May 21 to \$14.8 million on May 22.

¶3. (SBU) Solidere is a private consortium which bought up and developed downtown Beirut after the civil war. The area was hard hit by the Hizballah sit-in, beginning in December, 2006. The removal of the tent city nearby will open up the many businesses and restaurants of Solidere to the public again. Shares rose from \$27.16 on 5/20 to \$31.05 on 5/21, reaching the daily increase cap of 15 percent. The market was short on supply to meet demand for Solidere shares, Khalaf told us, noting that the market closed on May 21 with unmet demand for 1.4 million Solidere shares. As a result, prices for Solidere shares rose by an additional 15 percent to \$35.70 on May 22, triggering some profit taking. Demand for Solidere shares remains high, with supply being immediately absorbed by the market, Khalaf noted.

¶4. (SBU) Khalaf refuted rumors that Solidere shares were trading on the black market at \$43 on May 21. He explained that Solidere shares are nominative, and thus transactions must go through the BSE and the clearing house to be recorded. People could be mixing this up with Solidere GDRs (Global Depository Receipts), which traded between \$37 and \$4.62 in London, he remarked, and noted that about 300,000 Solidere GDRs were traded on May 21. Solidere GDRs traded between \$35 and \$36 on May 22, in line with prices on the BSE, he said.

¶5. (SBU) Stocks and GDRs for Lebanese commercial banks also rose substantially on May 21, with some shares reaching their daily increase cap of 10 percent. BLOM Bank and Audi Bank GDRs closed at \$106 and \$101.6 respectively, and Byblos Bank share price nearly reached the daily increase cap. Prices of shares in the cement company Holcim climbed to \$21.84 (almost the upper limit) on May 21 and \$23.53 on May 22. Khalaf expects the momentum on Lebanese shares to remain positive, with some profit taking. BSE president said international foreign funds, mostly western, are also investing in Lebanese instruments, and he expects "the momentum to remain positive, with some profit taking at certain levels." Local and international demand for all Lebanese sovereign papers also picked up, with prices increasing by 1-1.5 percent, banking sources told us.

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